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FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 1630
INFO RUCPCIM/CIMS NTDB WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCNCIS/CIS COLLECTIVE 0376
RUEHAK/AMEMBASSY ANKARA 2124
RUEHBUL/AMEMBASSY KABUL 0371
RUEHNE/AMEMBASSY NEW DELHI 0487
RUEHAST/USOFFICE ALMATY 0188

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SIPDIS

DEPT FOR SCA/CEN (O'MARA)
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A
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SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, JANUARY 6 - 18, 2008

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¶1. Summary: This information on economic and energy developments in Kazakhstan is drawn primarily from the local press, and has not been verified for accuracy.

-- GOK Economic Policy in 2008
-- New Appointments
-- US Bank Provides Loan to Kazakhstani Partner
-- Economic Statistics
-- KazMunayGas Will Explore N Block on the Caspian Shelf
-- KazMunayGas Secures Loan for Rompetrol Acquisition
-- Power Loss Prevention Program to Be Implemented
-- New Shell Country Chairman Assumed Duties on January 1
-- Energy Statistics for 2007

GOK Economic Policy in 2008

¶2. The Government of Kazakhstan (GOK), the National Bank of Kazakhstan (NBK) and the Financial Supervision Agency (FSA) approved a joint statement on the main directions of the country's economic policy. According to preliminary estimates, Kazakhstani GDP growth in 2007 was 8.7 percent. As a result of difficulties attracting external financing, the GOK is predicting a reduction in credit and only 5-7 percent GDP growth in 2008. Priority tasks for the NBK and the FSA will be to maintain inflation at, or below, 10 percent, strengthen supervision and regulation of private banks, and provide private banks with short-term liquidity if necessary. The GOK will continue to provide financing to construction companies through its development institutions. This step will allow for the completion of many apartment buildings currently under construction in Astana and other regions of Kazakhstan. (Kazakhstanskaya Pravda, January 9)

New Appointments

¶3. KazakhTelecom announced the appointment of Askar Yesengarayev as new Chairman of the Board of Directors. Yesengarayev previously held positions as the Managing Director of the Samruk State Holding and

as Chairman of the Information Agency of the Republic of Kazakhstan. KazakhTelecom dominates the Kazakhstani telecommunications market. The government owns approximately 52% of the company, which is managed by Samruk. (Interfax-Kazakhstan, January 14)

¶4. Kazyna Sustainable Development Fund Deputy Chairman Maksat Kabashev has been selected Chairman of the Managing Board of the National Investment Fund (NIF) of Kazakhstan. (Note. NIF is one of the development institutions operating under the umbrella of Kazyna.

The Fund fosters the development and direction of industries in non-extractive sectors through direct investment and co-ownership of businesses. End Note.) He was replaced at Kazyna by Zeinulla Kakimzhanov. (Interfax-Kazakhstan, January 15)

US Bank Provides a Loan to Kazakhstani Partner

¶5. National City Corporation (USA) has authorized a \$30 million loan to Kazakhstan-based TsentrKredit Bank (TKB), according to a January 8 TKB press release. The loan was granted for seven years with a two-year grace period and will be spent on the development of the bank's retail business. According to the press release, the U.S. Overseas Private Investment Corporation provided a loan guarantee. (BBC Monitoring Central Asia, January 9)

Economic Statistics

¶6. In 2007, agricultural output reached 1.07 trillion tenge (about \$8.84 billion), having grown 8.4% in comparison with 2006. The gross grain harvest rose 22% to 20.1 million tons in 2007. Production of meat was 1,504 million tons, a 4% increase over the 1,446 million tons produced in 2006. The production of milk increased by 2.9%, reaching 5,037 million tons. Overall, livestock production in 2007 grew by 4% to 469.5 billion tenge (approximately \$3.88 billion), and crop output increased by 12.7% to 600.1 billion

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tenge (about \$4.96 billion). (Interfax-Kazakhstan, January 15)

¶7. According to the National Statistics Agency, Kazakhstan's foreign trade surplus shrank by 5.6%, from \$13.531 billion in January-November 2006 to \$12.809 billion for the same period in ¶2007. Foreign trade grew 28.9% during that 11-month period to \$72.349 billion, including a 22.3% growth in exports to \$42.579 billion, and a 39.8% growth in imports to \$29.77 billion. The top ten export destinations were Italy (16.3% of total exports), Switzerland (15.6%), China (12%), Russia (10%), France (8.4%), Ukraine (2.4%), UK (2.1%), Turkey (2%) Uzbekistan (1.8%), and the U.S. (1%). The top ten import sources were Russia (35.4% of total imports), China (10.7%), Germany (8%), the United States (5%), Ukraine (4.7%), Japan (4.3%), Italy (3.6%), Turkey (3%), the UK (2.3%), and France (2.2%). (Interfax-Kazakhstan, January 15)

KazMunayGas Will Explore N Block on the Caspian Shelf

¶8. Kazakhstan's Ministry of Energy and Natural Resources signed a Production Sharing Agreement (PSA) with Kazakhstan's national oil and gas company, KazMunayGas (KMG), to explore the promising N (or "Nursultan") Block on the Caspian shelf. The N Block was discovered in the mid-1990's. Its reserves are estimated at 600-700 million tons of hydrocarbons. KMG experts believe that this block has more gas than oil. The major complication in its exploration is its deep location below the sea (40 to 230 meters), which is expected to result in high extraction expenses. Exploration work will start in the second half of 2008. (Express-K newspaper, January 12)

KazMunayGas Secures a Loan for Rompetrol Acquisition

¶9. KazMunayGas (KMG) has concluded a deal for a one-year \$3.1 billion syndicated loan from ABN Amro, Credit Suisse, and Calyon. The annual interest rate is LIBOR plus 0.9%. The loan will be used to fund the acquisition of a 75% stake in Romania's Rompetrol Group N.V. The acquisition will double KMG's refining capacity by

providing access to two Rompetrol refineries in Romania and significantly increase its retail infrastructure by providing access to 630 filling stations in seven European countries. (Interfax - Kazakhstan, January 10)

Power Loss Prevention Program to be Implemented

¶10. The State Agency for the Regulation of Natural Monopolies (AREM) has proposed that power companies seeking tariff increases submit a three-to-five-year power loss prevention plan. According to AREM, today standard "technical losses" are 60% for water, 22% for electricity, and 33% for heat. Compensation for standard technical losses consumes as much as 50% of tariffs, and therefore the implementation of power loss prevention programs should result in significant tariff reductions. (Interfax - Kazakhstan, January 16)

New Shell Country Chairman Assumed Duties on January 1

¶11. Royal Dutch Shell Plc has appointed Campbell Keir as General Manager and Country Chairman for Shell Kazakhstan Development B.V. Keir was previously Managing Director for Shell Syria Petroleum Development, General Manager of the Al Furat Petroleum Company, and Country Chairman of Shell Syria. Between 1999 and 2003, he worked as Managing Director for Shell Exploration and Production in Thailand. Upon appointment, Keir established his priorities as working closely with KazMunayGas, continuing to expand Shell's program of local content development and social investment, and moving Shell's main office from Almaty to Astana by mid 2008. (Interfax - Kazakhstan, January 17)

Energy Statistics for 2007

¶12. According to the National Statistics Agency, in 2007,

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Kazakhstan produced 55.5 million tons of crude oil (2.2% more than in 2006) and 11.9 million tons of gas condensate (11.6% more year-on-year.) Natural gas production rose 15.7% to 16.6 billion cubic meters. coal production fell 1.9% to 94.4 million tons. Electricity production grew 6.2% to 76.15 billion kilowatt-hours. (Interfax - Kazakhstan, January 15)

¶13. Kazakhstan produced 6,637 tons of uranium in 2007, 25.7% more than in 2006. In 2008, the country plans to increase its production to around 9,600 tons of uranium. (Press service of Kazatomprom, January 15)

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